

FY2020 Financial result

ASX Release – 18 August 2020

Netwealth delivers 24.8% underlying EBITDA growth

Netwealth Group Limited (Netwealth, ASX; NWL), is pleased to announce its full year results for 2020.

FY2020 Underlying financial results highlights (PCP¹)

- EBITDA² of \$64.8 million (\$52.0 million), increase of 24.8% for the year.
- EBITDA² margin of 52.3% (52.6%) for the year.
- NPAT² of \$43.8 million (\$36.0 million), \$7.8 million increase or 21.7% increase for the year. Statutory NPAT of \$43.7 million (refer Appendix 1 for reconciliation).
- Total Income of \$123.9 million (\$98.8 million) an increase of \$25.1 million (25.5% increase). Platform Revenue of \$121.3 million (\$96.4 million), an increase of \$25.0 million (25.9% increase).
- Total Operating Expenses² of \$59.1 million (\$46.8 million), an increase of \$12.3 million (26.2% increase) reflecting previously announced strategic investments across IT infrastructure, people and software to support ongoing growth and market leading position.
- Headcount increased by 68 during the year to 339 at 30 June 2020, including an additional 32 resources in the technology team.
- Netwealth continues to expense all IT development costs.
- Operating net cash flow pre-tax² of \$64.5 million (\$49.5 million), 99.4% cash conversion from EBITDA.
- EPS² of 17.9 cents (14.8 cents), an increase of 3.1 cents (21.2%) for the year.
- On 18 August 2020 the board declared a fully franked final dividend of 7.8 cents per share totalling \$18.5 million for 2H2020. The dividend is payable on 24 September 2020. The ex-dividend date is 25 August 2020.

Financials ⁽²⁾	FY2019 Actual	FY2020 Actual	Change 19 V 20	% Change 19 V 20	1H 2020 Actual	2H 2020 Actual	Change 1H V2H	% Change 1H V 2H
Platform Revenue	96.4	121.3	25.0	25.9%	57.3	64.0	6.7	11.6%
Other Income	2.4	2.6	0.2	6.8%	1.3	1.3	(0.0)	(3.7%)
Total Income	98.8	123.9	25.1	25.5%	58.7	65.3	6.6	11.3%
Employee Benefits Expenses	(32.3)	(41.6)	(9.2)	28.5%	(19.9)	(21.7)	(1.9)	9.4%
Other Costs & Expenses	(14.5)	(17.5)	(3.0)	20.9%	(8.3)	(9.2)	(0.8)	10.1%
Total Operating Expenses	(46.8)	(59.1)	(12.3)	26.2%	(28.2)	(30.9)	(2.7)	9.6%
Underlying EBITDA	52.0	64.8	12.9	24.8%	30.5	34.4	3.9	12.8%
Underlying EBITDA Margin %	52.6%	52.3%	(0.3%)		52.0%	52.7%	0.7%	
Underlying NPAT	36.0	43.8	7.8	21.7%	20.6	23.2	2.7	13.1%
Underlying NPAT margin %	36.4%	35.3%	(1.1%)		35.0%	35.6%	0.6%	
NPAT continuing operations (FY2020 AASB16)	35.2	43.7	8.5	24.0%	20.5	23.1	2.6	12.7%
NPAT margin %	35.6%	35.2%	(0.4%)		35.0%	35.4%	0.4%	
Underlying Operating net cash flow pre tax	49.5	64.5	15.0	30.2%	30.5	34.0	3.5	11.6%
Cash conversion ratio to EBITDA	95.3%	99.4%	4.2%		100.0%	98.9%	(1.1%)	
EPS based on Underlying NPAT - diluted (cents)	14.8	17.9	3.1	21.2%	8.4	9.5	1.1	13.1%

\$'M unless otherwise stated

1. PCP: prior comparative period FY2019
2. Underlying EBITDA, EBITDA margin, NPAT, NPAT margin, Operating net cashflow and EPS prepared applying accounting standard AASB117 Leases and to exclude non-recurring expenses for FY2019. Accounts have been stated in accordance with the new accounting standard AASB 16 Leases adopted from 1 July 2019. A reconciliation is provided as Appendix 1. Underlying EPS has been calculated including all of the ordinary shares, performance shares and options on issue at the end of the period.

FY2020 Business highlights

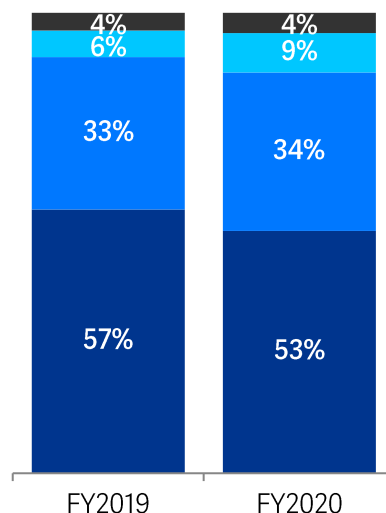
Platform Statistics	FY 2019 Actual	FY 2020 Actual	Change 19 V 20	% Change 19 V 20	1H 2020 Actual	2H 2020 Actual	Change 1H V 2H	% Change 1H V 2H
Funds Under Administration								
FUA (eop)	23,337	31,502	8,165	35.0%	28,511	31,502	2,991	10.5%
Fee Paying FUA %	61.0%	63.1%	2.1%	3.4%	60.9%	63.1%	2.2%	3.6%
FUA net inflows	4,334	9,080	4,746	109.5%	4,355	4,725	370	8.5%
Funds Under Management								
Managed Account	2,760	5,795	3,035	110.0%	4,368	5,795	1,427	32.7%
Managed Funds	1,186	1,483	297	25.0%	1,382	1,483	101	7.3%
FUM (eop)	3,946	7,277	3,331	84.4%	5,749	7,277	1,528	26.6%
Managed Account net inflows	751	3,324	2,574	342.9%	1,503	1,821	317	21.1%
Managed Funds net inflows	148	382	234	157.7%	202	180	(23)	(11.2%)
FUM net inflows	899	3,706	2,807	312.4%	1,706	2,001	295	17.3%
Key Statistics Annualised								
Platform Revenue / average FUA (bps)	48.1	43.7	(4.4)	(9.2%)	44.6	42.9	(1.7)	(3.7%)
Underlying EBITDA ⁽²⁾ / average FUA (bps)	25.9	23.3	(2.6)	(9.9%)	23.7	23.1	(0.6)	(2.7%)
Platform Revenue / average number of accounts (\$)	1,460	1,604	144.2	9.9%	1,564	1,642	78.0	5.0%
Accounts (eop, number)	71,424	81,804	10,380	14.5%	75,512	81,804	6,292	8.3%
Financial Intermediaries (eop, number)	2,579	2,843	264	10.2%	2,711	2,843	132	4.9%

\$'M unless otherwise stated
eop - end of period

- Funds Under Administration (FUA) at 30 June 2020 of \$31.5 billion, an increase of \$8.2 billion (35.0% increase) for FY2020 after negative market movement of \$0.9 billion for the year.
- Record FUA net inflows of \$9.1 billion for FY2020.
- Funds Under Management (FUM) at 30 June 2020 of \$7.3 billion including Managed Account FUM at 30 June 2020 of \$5.8 billion.
- Managed Account net inflows of \$3.3 billion (342.9% increase) for FY2020 and Managed Account negative market movement of \$0.3 billion for the year.
- Netwealth continues to diversify its revenue composition. Transaction fee revenue increased to 9% of platform revenue for FY2020, an increase of 3% from FY2019, driven by a significant increase in trading volumes from March onwards and the addition of new revenue streams and renegotiated supplier rates.

Platform revenue split FY2019 & FY2020

- Management Fees
- Transaction Fees
- Ancillary fees
- Administration fees



Source Netwealth

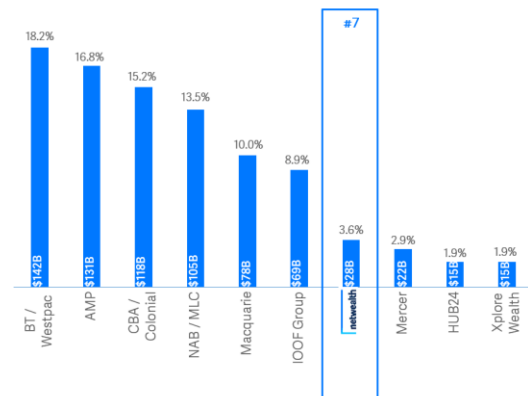
- At 30 June 2020 the cash transaction account as a percentage of FUA was 9.8% and was significantly higher during Q4 than the FY2020 average of 8.8%.
- Platform Revenue over average FUA of 43.7 bps for FY2020, down 4.4 bps for the year.
- On 1st March 2020 the Netwealth Super and Wealth Accelerator products were enhanced with a range of new features including a premium offer for high net-worth clients providing greater investment flexibility and functionality for sophisticated and high net-worth clients.
- As part of the upgrade, new pricing was launched to all members and investors. Accounts have been progressively migrating to the new pricing. All Accounts will be transferred by 31 December 2020.
- Average Account size increased to \$385,000 (Wrap \$897,000, Super \$195,000) for June 2020, up from \$323,000 for June 2019.
- Platform Revenue per Account increased to \$1,604, an increase of \$144 (9.9% increase) for FY2020 reflecting an increase in average account balance in addition to higher transaction and ancillary revenues.
- Number of Accounts increased by 10,380 (14.5% increase) to 81,804. 2,843 Financial Intermediaries using the platform at 30 June 2020, up 10.2% for FY2020.
- Netwealth is well positioned to meet the challenges presented by COVID-19 and subsequent economic disruption. It successfully transitioned staff to remote working with limited disruption to service and operation and without a net increase to its operating costs. Staff engagement and productivity also remains high.

Industry recognition and performance

- Netwealth has continued to be recognised as the leading Platform in Australia for technology functionality and service and recent awards are listed below.
- Netwealth is Australia's fastest growing platform³ and is ideally positioned for further growth and market share gains.
- In the latest Strategic Insights platform market update for March 2020, Netwealth recorded the largest quarterly FUA net inflows of \$3.2 billion, more than double that of its nearest competitor and the highest 12-month net fund flows for the eighth consecutive quarter.
- Of the major platforms for the year ended March 2020, Netwealth was the fastest growing platform in absolute terms and relative to its size (excluding the IOOF/ANZ merger) and is now the 7th largest platform provider in the market with market share of 3.6%, up 1.1% for the year³.

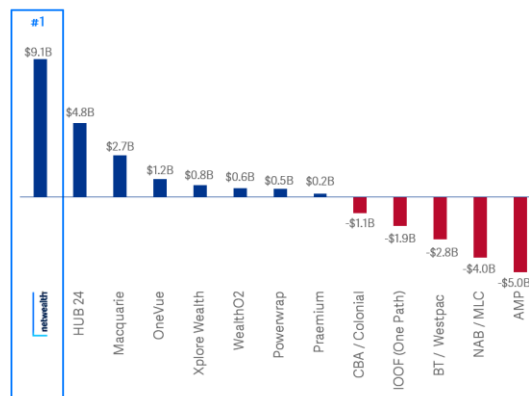
3. Strategic Insights, Master Trusts, Platforms Wraps – March 2020

Platform providers by FUA market share¹
% market share (Mar 2020)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2020)
1. Total industry retail FUA of \$777.4B (as at Mar 2020)

Platform provider net funds flows²
\$ Billions (12 months to Mar 2020)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2020)
2. Total net flows of \$+2.9B. (12 months to Mar 2020) (Not included above: Others of -\$2.2B)

During FY2020 Netwealth continued to be recognised as the leading specialist platform in the market.

- Achieved the highest overall satisfaction score among primary users for the ninth year in a row by Investment Trends May 2020 Planner Technology Report.
- Ranked 1st for digital wealth applications and services among wealth institutions by Investment Trends January 2020 Digital Wealth Report.
- Ranked 1st for overall platform functionality for the fifth year in a row by Investment Trends December 2019 Platform Competitive Analysis and Benchmarking Report.
- In May 2020 the Netwealth Super Accelerator product won Chant West Best Advised Product of the year for the 3rd year in a row.
- Ranked 1st for net promoter score, adviser experience, ongoing adviser support, overall functionality and client experience by Adviser Ratings December 2019 Financial Advice Landscape Report.

Commentary and outlook

- Netwealth expects to continue to benefit from the significant changes currently reshaping the industry and remains positive about the future and continued market share growth.
- In addition to growing market share within the affluent advice segment, high net-worth and private wealth groups represent a significant growth opportunity for the industry. Netwealth is well placed to support the unique and differentiated needs of the segment.
- To capitalise on the current market opportunity and to retain our market leadership across key market segments, Netwealth will continue to strategically increase its investment in IT infrastructure, people and software. Key initiatives are supported by the planned addition of 30 IT resources (20 Melbourne/10 Vietnam) in FY2021, who will focus predominantly on a new digital client engagement and mobile first “Whole of wealth” offering, as well as, enhancing reporting, transactional capabilities and client service tools and channels.
- In addition to investment in technology, Netwealth will launch in August the first of two new active funds, Magellan Global Specialist Series Infrastructure Fund and Magellan Global Specialist Series Global Fund. The funds, which will be available in our Wealth and Super Accelerator Core and Plus products, are the first in a series of new mandated funds which will continue to be rolled out progressively in the coming 12-18 months.
- Fees and ancillaries in FY2021 will be impacted by the previously announced new pricing of our back book and the full year impact of a lower cash margin.
- Depending on market volatility and investor behaviour, compared to Q4 2020, Netwealth may also be impacted by a reduction in the percentage of its clients FUA held in their cash transaction account and lower transaction revenues, should market volatility reduce.
- With the legislated end to all grandfathered commissions on 31 December 2020, Netwealth expects additional transition opportunities as advisers seek to provide their clients greater competitive pricing and functionality.
- The COVID-19 outbreak has led to increased market volatility, world-wide economic disruption and continues to have a significant impact on individuals and businesses. Given the dynamic and evolving nature of COVID-19 and the unknown duration of this pandemic, Netwealth will continue to assess and monitor any further impacts.
- Having regard to this uncertain environment, and based on Netwealth’s current pipeline, existing clients and the growth in new clients currently transitioning onto the platform, projected FUA net inflows for FY2021 is forecast at approximately \$8 billion.
- Finally, and importantly, Netwealth remains in a very sound financial position:
 - Highly profitable, with strong EBITDA margin;
 - A very high correlation between EBITDA and operating cashflow, resulting in exceptional cash generation;
 - Very high levels of recurring revenue, which results in predictable revenue; and
 - Very low capital expenditure, debt free and significant cash reserves.

About Netwealth

Netwealth was created with an entrepreneurial spirit to challenge the conventions of Australia's financial services. We are a technology company, a superannuation fund and an administration business. Above all we exist to inspire people to see wealth differently and discover a brighter future.

Founded in 1999, Netwealth is one of the fastest growing wealth management businesses in Australia.

We are rated No.1 by our clients for providing exceptional service and independent researchers continue to rate our technology as best in class*.

Our financial products are:

- Superannuation including accumulation and retirement income products;
- Investor directed portfolio services for self-managed super and non-super investments;
- Managed Accounts; and
- Managed Funds.

Netwealth's digital platform supports how our financial products are delivered to market. For instance, via the platform, financial intermediaries and clients can invest and manage a wide array of domestic and international products.

The platform is built, developed and maintained by our technology team. It is continuously enhanced using feedback from financial intermediaries, clients and other users and receives wide industry recognition as having market-leading functionality.

Supporting our financial products and technology platform is a significant investment in our people and resources to administer support, risk and governance and our custodial services.

This document has been authorised for release by CFO and Company Secretary, Mr Grant Boyle.

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*Investment Trends; December 2019 Platform Competitive Analysis and Benchmarking Report & Investment Trends, May 2020 Planner Technology Report

Appendix 1

- Set out in the table below is a reconciliation of underlying adjustments to the consolidated statement of profit or loss and other comprehensive income. The underlying adjustments relate to a one-off client rectification costs incurred in FY2019 and on the basis of pre-transition to AASB 16 Leases. The Board and management monitor the underlying NPAT pre AASB 16 and this information is provided to enable comparison with prior corresponding period.

Reconciliation from statutory results to underlying results	FY2019 Actual	FY2020 Actual	Change 19 V 20	% Change 19 V 20
Statutory NPAT on continuing operations	35.2	43.7	8.5	24.0%
Depreciation on right-of-use assets (post AASB 16)	-	1.4	1.4	100.0%
Interest on leases (post AASB 16)	-	0.1	0.1	100.0%
Rental expense (pre AASB 16)	-	(1.3)	(1.3)	(100.0%)
Net tax impact from leases (adoption of AASB 16)	-	(0.1)	(0.1)	(100.0%)
Client rectification costs and legal expenses	1.1	-	(1.1)	(100.0%)
Tax impact from client rectification costs and legal expenses	(0.3)	-	0.3	100.0%
Underlying NPAT	36.0	43.8	7.8	21.7%
Underlying NPAT margin	36.4%	35.3%	(1.1%)	

\$'M unless otherwise stated